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CURRENT ISSUE

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IT departments implement chargebacks to fund projects and offset service and support operations.

Karen J. Bannan

This spring, University of Miami students, teachers and alumni will have a new service available: wireless backup. Each person who opts into the \$80-per-year service will receive 2 gigabytes of storage space per PC. Those with more than one PC will be eligible for volume discounts. The service joins other mandatory and optional services the university charges departments and individuals for — a practice often called “recharges” or “chargebacks.”

Chargebacks have been around for years, says Philip Goldstein, a research fellow with EDUCAUSE Center for Applied Research (ECAR), a nonprofit association based in Boulder, Colo. Universities ask departments and faculty to reimburse them for things such as telecom and network services, printing and technical support.

However, unlike corporations, most schools are not interested in fully allocating costs to profit and loss centers, Goldstein says. Instead, institutions use chargebacks to shape behavior. “If you’re charging per megabyte for network services and departments know that, they will be more judicious with their calling patterns,” he says.

The paradigm is changing, though. With tight budgets, some IT departments look for ways to fund current services, pay for tomorrow’s IT infrastructure and solve persistent problems, such as users trying to circumvent chargebacks. Enter programs such as the one launching at the University of Miami or other IT outsourcing models in which schools offer services to individuals or businesses not affiliated with their campus.

In the University of Miami’s case, the wireless backup was created to lessen the load on the university’s help desk, says M. Lewis Temares, CIO and vice president of IT, dean of the College of Engineering.

“We don’t make money on the majority of things we charge back for internally,” he says. “We break even. However, some services we offer externally do bring in some money. [For example,] I got tired of hearing students say that their papers were lost and could we help find them on their hard drives. Our service fixes that. As soon as users turn on their PCs and connect to a wireless network, their data will be uploaded to the server.”

Here’s Your Bill

There are three cost models for chargebacks, according to a report produced by Gartner, a Stamford, Conn., market research firm: access, subscription and tiered use.

The University of Alabama at Birmingham employs all three, says Sheila Sanders, vice president of IT. The school charges back on a subscription basis for wireless access, phone service, network connections and on demand for office machine repairs. It uses the access model, charging a flat yearly fee per employee and a per-credit-hour fee for students for a basic level of services, including e-mail access, help desk support and data security.

The university recently started an innovative service based on the tiered model, which generates fees based on volume, such as the number of desktops or file and e-mail storage, says Heather White, the director of finance and administration for IT.

“It’s an area that’s seeing huge growth,” Sanders says. “Users can opt in on a voluntary basis. We

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Smart Quotes

“With budgets shrinking as they are and applications expanding, it’s getting more desirable for us to charge by the packet.”

— Frank Moore, CIO of Longwood University

have whole schools opting in rather than providing their own IT services to their departments.”

The chargeback works because schools and departments pay only for what they use, White adds.

Cornell University in Ithaca, N. Y., is also making a subscription service work. Three years ago, the university switched its network connectivity from an access to a subscription fee-based structure. Cornell was charging per port, but it wasn't an equitable charge, says Robert Vernon, director of IT. Some departments barely used the network while others were constantly online, and some users were even circumventing fees by setting up their own local area networks, he adds.

Cornell's IT management, which charges back for more than 30 services, including Web hosting, printing and long distance, knew they needed to make a change. To make network charges fair, equitable and scalable, they came up with a three-part rate structure: a monthly port fee of \$6.25 for departments; a centrally funded allocation for infrastructure; and a monthly wide area network fee of \$2.75 for up to 2GB.

Today, 90 percent of Cornell students are paying less for their access because they're not underwriting others who overuse the network. Also, student use is down by 65 percent, and faculty use is flat.

“It's a great alternative to packet shaping [blocking certain types of data], which is what a lot of universities are forced to do to reduce network usage,” says Scott Sheavly, Cornell's assistant director of finance.

Of course, not every chargeback will stick. Some may end up being too unwieldy to administer. A case in point is the University of Kansas Medical Center, an academic center that includes the School of Medicine, School of Allied Health and School of Nursing. Until last July, the department of telecommunications and networking charged for data services. Each month, departments paid about \$35 per network connection for a network port and accompanying technical support.

Unfortunately, some departments set up what Matthew Fuoco, the director of the telecommunications and networking department, calls “rogue devices.”

“People would circumvent that monthly charge by bringing in their own routers and servers,” Fuoco says. “From a security standpoint, it was a nightmare.”

As a result, the network chargeback was eliminated. The lost fees are being recouped via the department's annual budget. The university's monthly telecom chargeback is still in place, however.

Greg Hidley, chief infrastructure officer of the California Institute for Telecommunications and Information Technology at the University of California, San Diego, determines whether something is worth charging back based on revenue. If the anticipated income is less than \$50,000, it may be more effort than it's worth, he says.

The university provides telephone services, wireless Internet access, dial-up networking and local connectivity using an access model, but offers subscription and tiered use options for technical support and audiovisual support, as well as software programming services and high-speed services.

“If you get a new research grant and need to start working to produce deliverables immediately, you can go to a recharge and hire people immediately at a cost that is only marginally higher than if you hired people on your own,” Hidley says. “But if you do it yourself, it could take six months and by then [those who oversee] your funding agency will want to know why you haven't completed anything. Recharges help departments avoid the inherent risk of providing services on their own.”

90%

The percentage of Cornell students paying less for Internet access because they're not underwriting other students who overuse the network.

Easing the Transition

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Although half of all colleges and universities have chargeback policies in place, according to the EDUCAUSE Center for Applied Research, getting buy-in for those policies can be a challenge. There are ways to make the transition easier, though, says Philip Goldstein, an ECAR research fellow.

Get departments involved. University officials who communicate the metrics and value of what they're doing and ask for feedback have an easier task, Goldstein says.

Don't overlook the value of monthly communications, such as an e-mail newsletter, which can get your message out there.

Give them an advocate. Your chargeback customers are just that: customers. If they have a problem with billing or any questions regarding that transaction, they need someone to help them quickly.

Make sure that your prices are competitive. Do yearly audits and competitive comparisons to make sure your prices are in line with the markets.

Eliminate paperwork. Put monthly bills and order entry online to facilitate customer service.

Karen J. Bannan is a New York-based writer.

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